

# **Report of the auditor-general to the Limpopo provincial legislature and the council on Mutale Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Mutale Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Property, plant and equipment**

6. During 2014, the municipality did not capitalise items of property, plant and equipment, amounting to R1 759 776, in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
7. In addition, I have identified unexplained differences between the financial statements and the asset register amounting to R1 838 425. Furthermore, differences amounting to R1 285 354 were identified between the accumulated depreciation per the underlying records and note 6 to the financial statements. The municipality's accounting records did not permit the application of alternative means. Consequently, I was unable to determine the impact of these differences on the total assets to the value of R101 480 811 as disclosed in note 6 to the financial statements.

### **Cash flow statement**

8. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for net cash flow from operating activities. The restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the net cash inflow from operating activities corresponding figure stated at R15 989 223 in the financial statements was necessary.

## **Opinion**

9. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Mutale local municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA, and DoRA.

## **Emphasis of matter**

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Irregular expenditure**

11. As disclosed in note 33 to the financial statements irregular expenditure amounting to R179 666 was incurred as the municipality procured goods and services without following supply chain management regulations.

### **Fruitless and wasteful expenditure**

12. As disclosed in note 33 to the financial statements the municipality incurred fruitless and wasteful expenditure amounting to R2 028 363 due to late payment to suppliers.

## Restatement of corresponding figures

13. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

## Material losses

14. As disclosed in notes 2 to the financial statements, material losses to the amount of R2 877 320 were incurred as a result of inventory write offs.

## Additional matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Unaudited supplementary schedules

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

## Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Service delivery on pages 14 to 20
  - Local economic development (LED) on pages 20 to 21
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.



21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the selected objectives are as follows:

## **Local economic development**

### Usefulness of reported performance information

24. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 40% of the indicators were not well defined. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes for the development of performance indicators and targets included in the SDBIP.
25. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 100% of the indicators were not verifiable. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes for the development of performance indicators and targets included in the SDBIP.

### Reliability of reported performance information

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

## **Service delivery**

### Usefulness of reported performance information

27. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 69% of the reported indicators were not consistent with those in the approved integrated development plan. This was due to a lack of proper systems and processes to ensure consistency between planned and reported information.

28. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 100% of the indicators were not verifiable. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes for the development of performance indicators and targets included in the SDBIP.

### Reliability of reported performance information

29. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the measurement, recording and monitoring of performance.

### **Additional matters**

30. I draw attention to the following matters. My conclusion is not modified in respect of these matters:

### Achievement of planned targets

31. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priority reported in paragraphs xx to xx of this report.

### Unaudited supplementary schedules

32. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

### **Compliance with legislation**

33. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### Annual financial statements, performance and annual reports

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, and expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving a qualified audit opinion.
35. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

## Procurement and contract management

36. Prospective providers were not invited to apply for listing in the list of approved prospective providers at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

## Asset management

37. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
38. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

## Expenditure management

39. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
40. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Internal control**

41. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

42. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall financial and performance management system .
43. Management did not always provide the required supervision and review over daily/monthly recording of transactions to strengthen the internal controls and ensure that the municipality complies with all laws and regulations.
44. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not timely monitor adherence to the plan.

## **Financial and performance management**

45. The municipality did not properly reconcile its fixed assets register to the underlying accounting records.
46. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report.

47. The annual performance report was not supported and evidenced by reliable information. This was mainly due to lack of standard operating procedures for the collection, collation and verification of performance information.
48. The financial statements were not reconciled to the underlying records to ensure the accuracy, completeness and reliability of reported financial results.

## **Governance**

49. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

*Auditor-General*

Polokwane

22 January 2016



AUDITOR - GENERAL  
SOUTH AFRICA

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